Rep. Harry Mitchell and Rep. Christopher Shays have joined forces to introduce the bipartisan Mitchell-Shays Capital Gains and Estate Tax Relief Act. To read the press release about the bill, click here .

What does the Mitchell-Shays Capital Gains and Estate Tax Relief Act do?

Mitchell-Shays Capital Gains and Estate Tax Relief Act permanently reduces estate and capital gains taxes by preserving 2001 and 2003 reductions that are set to expire December 31, 2010. Permanently reducing these cuts encourages investment and makes our tax code fairer and more predictable.

What would capital gains and estate tax rates be under the Mitchell-Shays Capital Gains and Estate Tax Relief Act?

The Mitchell-Shays Capital Gains and Estate Tax Relief Act permanently reduces the capital gains tax to 15 percent. Prior to 2003, capital gains were taxed at a 20 percent rate. Unless Congress acts to extend these tax cuts, Americans will see a 33 percent increase in capital gains taxes in 2011.

Mitchell-Shays also permanently reduces the estate tax. Prior to the first tax cut in 2001, taxpayers with combined assets of more than $675,000 were subject to the estate tax. The 2001 and 2003 tax cuts increased the exempted amount to $1 million in 2003, $2 million in 2007, and $3.5 million in 2009.

Mitchell-Shays establishes an automatic increase in the exemption, indexed for inflation, beginning with $3.75 million in 2010. It raises the exemption to $5 million by 2015 and then indexes the exemption for inflation thereafter. Furthermore, Mitchell-Shays eliminates the flat 55 percent tax rate and creates two lower estate tax rate brackets: 15 percent for estates valued below $25 million, and 30 percent for estates valued above $25 million.

Who benefits from the Mitchell-Shays Capital Gains and Estate Tax Relief Act?

The Mitchell-Shays Capital Gains and Estate Tax Relief Act provides tax relief for middle-class families, small business owners, those who own stock and 401(k) retirement plans and anyone who owns a home.

Why is it important to extend capital gains tax cuts?

In 1983, less than 20 percent of Americans owned stock. Now, between retirement, education, and “rainy-day” savings more than half of Americans do. Additionally, after a decade and a half of low interest rates, more than two-thirds of Americans are now homeowners. By 2011, the year that these tax cuts expire economists predict that number will reach 70 percent.

Specifically, capital gains tax relief is important to:

- Homeowners. Under many conditions, capital gains upon sale of real estate are taxed. In the past decade, home prices in the United States have more than doubled, putting a squeeze on those selling real estate. [Source: http://www.ofheo.gov/media/pdf/1q07hpi.pdf]
- Middle-class families. The Federal Reserve recently reported that the value of capital gains increased by more than 80 percent from 1998 to 2004, fueled by more middle-income taxpayers investing their savings. Today, more than half of Americans own stock, up from less than 20 percent in 1983. [Source: http://www.ici.org/pdf/rpt_05_equity_owners.pdf]
- Families saving for college education. According to the Investment Company Institute, more than 90 percent of parents saving for their child’s education said that they own taxable investments to save for college, and nearly 40 percent of these say it is their only college savings vehicle. [Source: http://www.ici.org/pdf/rpt_03_college_saving.pdf]
- Baby-boomers nearing retirement. In a recent survey by AARP, one-third of respondents said they currently have their money in individual stocks and mutual funds. Many financial planning professionals recommend selling stocks prior to retirement to mitigate risk. [Source: http://assets.aarp.org/rgcenter/econ/ret_planning.pdf
]

Why is it important to extend estate tax cuts?

Recently, as home values began to double and the number of small businesses continued to grow, more and more middle-class taxpayers found themselves subject to the estate tax.

Specifically, capital gains tax relief is important to:

- Homeowners. Real estate economists predict that approximately 70 percent of Americans will own a home by 2011. Additionally, the Federal Reserve recently reported that real estate holdings make up more than 60 percent of families' non-financial assets. [Sources: http://www.freddiemac.com/news/pdf/americas_home_forecast.pdf , http://www.federalreserve.gov/pubs/oss/oss2/2004/bull0206.pdf]
- Small business owners. The Small Business Administration estimates that the number of self-employed individuals grew by 12.9 percent from 2000 to 2004. More than half (57.1 percent) of these individuals are older than 45 years old. In Arizona, small businesses account for 97 percent of employer businesses. [Source: http://www.sba.gov/advo/research/sb_econ2006.pdf]
- Anyone with a net worth of more than $1 million in 2011, including the value of any real estate or business assets in their name. This affects small business owners, landlords, family farmers, and middle class families with inadequate estate planning.